New twists, risky turns

Logistics managers at the epicenter of make-or-break decisions in 2021

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Similar to the standardization the shipping container brought in the mid-20th century, modern technology is allowing for large segments of the supply chain to be standardized and digitized. This digital transformation is driving cost efficiencies and promoting transparency throughout the supply chain. In the short term, technologies that simplify this transformational process, including process automation tools and IoT data capture, will be immensely beneficial. In the longer term, as the market shifts more of its transaction volume online, digital platforms should look to invest in integrity tools and enhanced trading capabilities. These types of technology investments will promote trust among market participants, ultimately allowing for broader platform adoption and revenue opportunities.

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COVID-19 has all but delivered the coup de grâce to the traditional storefront model of commerce. Even after quarantine and lockdown restrictions are lifted, we can expect to see continued growth for e-commerce. Now, especially, shippers and retailers are struggling to maintain an influx of new inventory to replace diminished stock. Rolling straight from a pandemic scenario into the holiday rush season will constrict available capacity to a choke point. With new surges of pandemic cases around the world, vendors will also have to contend with maintaining their day-to-day stock, in addition to their seasonal offerings, further complicating capacity constraints.

Already we are seeing container shipments being turned down because there is no available space. We expect this trend to continue well after the holiday season, likely indefinitely, as more and more retailers are turning to e-commerce models to meet their customers needs. Shippers will need to step up their game and incorporate high visibility solutions into their supply chains immediately if they want to survive.

Given the e-commerce boom and the likelihood that it will continue to grow exponentially as time progresses, supply chain visibility will remain a strong growth sector in the years to come. Retailers and e-tailers alike will face numerous challenges due to large returns in inventory management, just-in-time manufacturing, and a need for heightened operational efficiencies. Even if applied solely to detention and demurrage charges, two of the greatest operational cost pain points for shippers, visibility technology offers a substantial return on investment. In addition to indirect cost savings opportunities created through higher levels of visibility, there is also a gain in operational efficiency for supply chain operations. With the two combined, we will continue to see a rise in demand for supply chain visibility technologies.

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The pendulum of market power seems to have swung firmly in the carriers’ favor. The market disruptions triggered by COVID-19, followed by all-time high spot rates, clearly illustrate how carriers have become increasingly disciplined in their capacity management. As a result of the tightly controlled capacity and high spot rates, most shippers had difficulties booking their cargo on their service contracts. Many were required either to pay significant increases or to suffer extensive delays.

As we look toward 2021, no one knows how the freight market will play out. However, we do see shippers preparing to follow different paths when negotiating their 2021 service contracts. For instance, some shippers seem to be taking the same approach as they have in the past, by pressing for lower freight rates where possible and merely insisting that their carriers honor the service level agreements as outlined in the contract boilerplates.

However, innovative shippers are taking a new approach. They have realized their legacy boilerplates are not effective alone. They are collaborating with their carriers to agree on new performance terms that align expectations and incentives. For instance, in return for fixed rates and allocations from their carriers, the shippers are committing to specific volumes on key lanes. This improves on-time, in full (OTIF) numbers and avoids unbudgeted freight spend for the shippers, while enabling the carriers to better optimize their networks and equipment flows.

Over the past year, those shippers who established clear performance terms with their carriers, using NYSHEX to monitor performance and manage exceptions, achieved over 99 percent contract compliance. As we begin 2021, I’m excited to continue our work with the innovative shippers and carriers who are collaborating to solve the contracting challenges of the past in ways that will benefit both carriers and shippers.

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2020 has provided a pull-forward acceleration of existing digital trends affecting